

Annual Report, 1977



canadian
cablesystems limited

Table of Contents

History of the Company	1
Report to the Shareholders	2
Report on Cable Operations	4
Community Antenna Television	6
Syracuse Cablesystems	7
Famous Players	8
Statistical Review	10
Analysis of Operations	11
Outlook	13
Financial Statements	14
Financial Statements— Famous Players	21
Quarterly Information	26
Summary of Subscribers	27
Directors, Officers, Corporate Staff	28
Corporate Structure and System Management	
Inside back cover	

The Cover

Left to Right
An on-line computer system maintains subscriber data banks for each system
Programming control room at London Cable TV
A link in the Grand River microwave system


Corporate Information
CORPORATE OFFICE

Suite 2602
P.O. Box 249
Commercial Union Tower
Toronto-Dominion Centre
Toronto, Ontario, Canada
M5K 1J5
(416) 869-0152

EXCHANGE LISTINGS

Toronto Stock Exchange
The Montreal Stock Exchange

STOCK EXCHANGE SYMBOLS

CAB-A
CAB-B

TRANSFER AGENT

Montreal Trust Company

BANKERS

The Royal Bank of Canada
Canadian Imperial Bank of Commerce

AUDITORS

Price Waterhouse & Co.

Highlights of the Year
For the Period ended August 31

(Thousands of Dollars or Per Share)

1977 1976 % Change

Revenue from Cable Operations	26,320	22,876	15.1
Earnings from Cable Operations and Investment Income	4,156	3,111	33.6
Equity in the Earnings of Famous Players Limited	3,576	6,304	(43.3)
Total Net Profit	7,732	9,415	(17.9)
Per Share	1.94	2.36	(18.0)
Dividends Paid	1,436	1,353	6.1
Per Share	0.36	0.34	5.8

At August 31

Total Assets	100,225	88,520	13.2
Long-term Debt	12,481	12,036	3.7
Shareholders' Equity	71,676	65,129	10.1
Cablesystems' Equity in Subscribers on Service	428,162	373,920	14.5

The First 58 Years

The Company was incorporated in 1920 as Famous Players Canadian Corporation Limited, a Canadian company whose principal business was owning and operating motion picture theatres. The Company grew through internal expansion and acquisition and, by the early 1950's, was operating more than four hundred theatres. At that time, a program was undertaken to sell unprofitable locations, modernize most of the remaining theatres and open new theatres in suburban locations.

During the same period, Famous became one of Canada's pioneer television broadcasters, as partners in establishing among the first English and French language stations in Canada in 1954. In 1959 the Company became a partner in London TV Cable Service Ltd., one of the pioneer cable TV systems in Canada. Other cable

and broadcasting interests were acquired or launched throughout the 1950's and into the 1960's so that by the end of the decade, the Company had significant holdings in the communications field in many parts of Canada.

The Company was reorganized in 1971 to comply with new Canadian ownership requirements. Prior to reorganization, the Company was controlled by Gulf + Western Industries, Inc., a U.S. corporation. As part of the reorganization, the theatre business was sold to the newly-formed Famous Players Limited, leaving the Company with the cable and broadcasting properties, and a 48.9% interest in Famous Players Limited. Gulf + Western Industries' interest in the Company was then cancelled. The Company then changed its name from Famous

Players Canadian Corporation Limited to Canadian Cablesystems Limited to reflect more properly the primary operating business of the Company.

Since the 1971 reorganization, the Company has grown rapidly, primarily in cable television in Canada. In 1971, the Company had an equity interest in approximately 160,000 subscribers. At the end of 1977 this had increased to 430,000 subscribers. Canadian Cablesystems Limited ranks as one of the world's largest cable television companies operating eleven systems in key urban areas of Southern Ontario and in Calgary, Alberta. In addition, the Company has a wholly-owned engineering division and a joint venture data processing company, both of which primarily service the Cablesystems group of systems.

Famous Players Limited continues to be the Company's primary non-operating investment. Famous Players remains Canada's largest exhibitor of motion pictures and has extensive interests in theatres in France and in real estate developments in Canada.

This is the 58th Annual Report of the Company. Its shares have been listed on the Toronto Stock Exchange for over fifty years.

Left to Right
The first annual report of the Company. Looking down Yonge St., Toronto, circa 1930. The Pantages Theatre is now the Imperial Six Cinema.

During the 1950's, the Company conducted one of the first pay television experiments, using a pay per programme system called Telemeter. The Metro Cable business office handles 120,000 subscriber accounts.



Report to the Shareholders

The 1977 fiscal year was an exciting and a very satisfying one in many ways. The operating group of cable systems enjoyed a successful year reporting record revenues and profits. In addition, the Company completed a major acquisition in Canada and commenced its first expansion into the United States. The highlights of the year are summarized below:

- Cable revenues reached \$26.3 million, a record high.
- Net profit from cable operations and investments rose by 34% to \$4.2 million or \$1.04 per share.
- Community Antenna Television Ltd., which operates a cable system serving south Calgary was acquired.
- Cablesystems, in partnership with local investors, was chosen to build the cable system for Syracuse, New York.
- Famous Players Limited experienced a relatively poor year in 1977. The Company's share of the earnings of Famous declined 43% to \$3.6 million, or \$0.90 per share.
- Total earnings per share declined 18% from \$2.36 to \$1.94.
- The dividend was increased from the annual rate of 34¢ to 38¢ a year.

Cable Operations

Subscriber growth was modest in 1977, but the effect of rate increases, additional converter penetration and cost control measures was to expand operating margins and increase operating profit by 17% to \$13.1 million. Including the acquisition of the cable system in Calgary there were 571,000 households passed by cable at year-end and subscribers on service stood at 428,000 for a penetration of 75%.

The outlook for the Company's cable operations is favourable for the current fiscal year.

Famous Players Limited

The quality and quantity of popular film product was poor during the year ended June, 1977. Consequently attendance declined significantly and, coupled with major cost increases, Famous Players experienced a sharp reduction in theatre net profit. Profit on the sale of surplus properties also declined substantially. Product and attendance are excellent for the current year to date and indications are for an improved operating performance.

Community Antenna Television Ltd.

In July, 1977, the Company purchased Community Antenna

Television Ltd., the licensee of a cable system serving Calgary, Alberta. The system currently serves approximately 49,000 subscribers and should enjoy excellent growth for the foreseeable future. Community Antenna is expected to make a substantial contribution to the overall consolidated results in coming years.

Chatham Cable TV Limited

Effective September, 1977, Cablesystems purchased the remaining 50% of Chatham Cable TV that it did not own. The purchase price was \$550,000.

Syracuse Cablesystems

In early 1977, the City of Syracuse, New York, called for proposals to build and operate a cable system. The Company, together with a group of prominent Syracuse citizens formed a partnership, Syracuse Cablesystems, which was selected against strong competition from major U.S. cable operators. Negotiations regarding the actual franchise agreement are now underway with the City. The system will be one of the most advanced in North America in that it will enable a two way flow of information and offer a much wider range of services than conventional cable systems. These

services will include pay television and fire and burglar alarm monitoring.

Offer for Premier Cablevision Limited

On July 29, 1977, the Company through a subsidiary made a public offer to purchase 51% of the outstanding shares of Premier Cablevision Limited, one of Canada's largest cable television companies. Despite an increase in the offered price from \$10.50 to \$12.00 per share, insufficient shares were tendered and the Company elected not to take any shares.

Research and Development

In 1977, Cablesystems was instrumental in the formation of a consortium of Canadian cable television companies to undertake a \$1.7 million fibre optics test system in London, Ontario. The Company

expects its contribution to the project to be \$0.2 million. Fibre optics is a new transmission technology utilizing flexible glass fibres and laser beams to transmit signals. Indications are that this medium will significantly improve the quality and capability of broadband communications systems at lower costs and the Company is excited to be playing a role in developing its application to cable television.

Shareholdings

Subsequent to year end the Company's largest single shareholder, Brascan Limited, sold its 26% interest in the Company to a subsidiary of Rogers Telecommunications Limited of Toronto. In addition, Edper Investments Limited, a private investment company controlled by the Edward and Peter Bronfman families of Montreal, purchased a substantial position. The Canadian Radio-television and Telecommunications Commission has called a hearing to consider these changes in share ownership. Following the sale of the Brascan interest, Mr. J. Peter Zachary and Mr. Norman E. Hardy who represented Brascan tendered their resignations as directors of the Company.

Reclassification of Shares and Continuance

At the Annual Meeting held in January, shareholders approved the reclassification of the common shares into Class A shares and the creation of Class B shares. The two classes are interchangeable and identical in all respects except for the tax treatment of the dividend. Both classes were listed for trading on August 15, 1977, on the Toronto and Montreal Stock Exchanges.



Anthony F. Griffiths, Chairman and Chief Executive Officer, with W. Edwin Jarman, President.

The Company was continued under the Canada Business Corporations Act on September 7, 1977 pursuant to the shareholders' resolution confirmed at the last Annual Meeting.

Under the Articles of Continuance, restrictions are imposed on the transfer, issuance and voting of shares to maintain the Company's eligibility to hold or acquire licences under the Broadcasting Act.

Dividend Increase

The Company's quarterly dividend was increased from 8.5¢ to 9.5¢ with the June 30 payment. Both the Class A and Class B shareholders receive the same dividend.

Personnel Changes

In January, 1977, Mr. Eugene Fitzgibbons, Vice-President, Corporate Development and a Director, retired after twenty-six years of service with the Company. Mr. Fitzgibbons was closely associated with the Company's early investments in broadcasting and cable and played an important role in the development of the Company as it is today.

Mr. Hank Vander Laan, Vice-President, Technical Operations and Personnel, resigned after sixteen years to pursue a personal business venture.

Mr. Stephen M. Ferris joined the Company as Vice-President, Personnel and Organization Development and Mr. David E. Friesen joined as corporate Controller.

New Directors

Albert Gnat, General Counsel and Secretary of the Company, was appointed to the Board at the Annual Meeting in January. In October, 1977, Mr. Jack E. Davis, President and founder of Community Antenna Television Ltd., and Mr. Anthony D. Gooch, Vice-President, Finance of the Company were appointed to the Board.

In conclusion, the Board of Directors wishes to express its appreciation to the employees whose dedication and hard work were so important to the Company's success in the past year.

AF Griffiths
Anthony F. Griffiths
Chairman & Chief Executive Officer
Toronto, Ontario.

November 25, 1977

Cable TV Operations

The operating divisions of Canadian Cablesystems registered modest increases in subscribers during 1977, notwithstanding a generally soft consumer spending climate. The one exception was Grand River Cable TV serving the Kitchener-Waterloo region, which experienced a reduction in subscriber count following a major transition of apartment subscribers from bulk payment by the building owner to individual payment by the tenant. These losses were more than offset by revenue gains due to the elimination of bulk discounts.

Subscribers

At August 31, 1977, the Company had 428,162 subscribers on service accounting for associated companies on an equity basis. This compares to 373,920 at the end of the 1976 year. Most of the increase flows from the acquisition in 1977 of the cable system in Calgary which served 48,663 subscribers at year end. Excluding Community Antenna the increase over last year was 1.5%. Penetration of the homes passed by cable including Community Antenna stood at 74.9%. More detailed discussion of subscriber statistics and operating results is given on page 11 "Management's Discussion and Analysis of Operations".

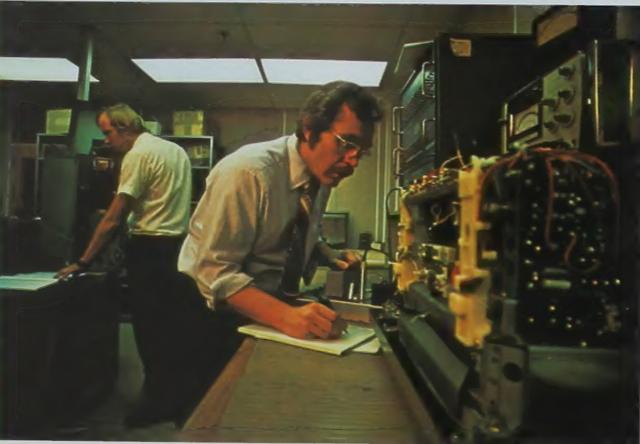
Rate Increases

Four of the Company's cable systems, (Cornwall, Brantford, Newmarket and Pine Ridge) implemented rate increases during the year. These rate increases were approved by the CRTC largely on the basis of cost inflation, although in the case of Cornwall a higher rate was approved in recognition of the higher capital costs associated with the dual cable system.

Expansion of Services

During fiscal 1977, Canadian Cablesystems completed the technical upgrading of its cable networks to expand their channel capacity, thereby enabling subscribers to access a wider range of channels by means of a converter. Approximately fifty per cent of Canadian Cablesystems' subscribers in the major urban markets now have converters, obtained either from Canadian Cablesystems or from other sources, and it is anticipated that converters will reach comparable penetrations in our smaller systems.

The Canadian Cable Television Association, with the active participation of Canadian Cablesystems, is asking the CRTC to allow the cable industry to experiment



with additional revenue-producing services such as pay television. In June, the CRTC held three days of public hearings on the issue of pay television. Canadian Cablesystems was well represented at these hearings, both through PTN (Pay Television Network), in which the Company is a participant, and through the Canadian Cable Television Association. In its presentation, PTN enlisted the help of four well-known Canadian creative producers who told the Commission that pay television would not only be a boon for cable subscribers but also would be of significant benefit to the Canadian independent production community. The Minister of Communications, Mme Sauve, has asked the CRTC to give her its recommendation regarding the most desirable format for the introduction of pay TV. These recommendations are expected to be issued by December, 1977.

Pole Access

From a regulatory standpoint, one of the most significant events in fiscal 1977 was the CRTC hearing concerning the terms under which cable companies could gain access to Bell Canada poles. On balance, the cable industry was satisfied with the

outcome of these hearings. The CRTC set rates both for the rental of cables installed by Bell under the existing partial system agreement and for the attachment of cable company-owned facilities to Bell poles under a new support structure offering.

System Management

Several key system management appointments were made in the cable division during 1977.

Mr. Frank Eberdt, previously Vice-President and General Manager of Cornwall Cablevision, was appointed Executive Vice-President and General Manager of Grand River Cable TV. Mr. David Edwards, previously Controller of Metro Cable TV, was appointed Executive Vice-President and General Manager of Cornwall Cablevision.

Marketing

A variety of programmes were initiated over the past year to increase the effectiveness of the Company's marketing efforts and improve its customer relations. With the assistance of a Creative Director at corporate office, new standards for consistent quality and creativity are being applied to the operating divisions' advertising and customer contact material.

Cableshare

The Company continues to increase the application of computer processing to its administrative and engineering functions. During 1977, Cableshare, the Company's data processing affiliate, purchased a third DEC computer and is in the process of moving its original computer to Calgary to provide on-line subscriber information processing for Community Antenna. The application of skilled computer processing and accompanying programmes of work simplification represent an important part of the Company's effort to reduce costs and improve efficiency.

Cablesystems Engineering

Cablesystems Engineering, the Company's engineering division, played a key role in securing the franchise for the City of Syracuse (page 7 for further comment). The City of Syracuse called for a system design that included a fire and burglar alarm service and Cablesystems Engineering developed such a system, the economics of which was an important factor in the final consideration of the City Council. Cablesystems Engineering is currently heavily involved in planning a fibre optic cable link at the London system.

Community Antenna Television Ltd.

The Company made its first major expansion in cable television outside of Ontario through the acquisition of Canadian Cablesystems. Mr. Davis founded Community Antenna and was the person primarily responsible for bringing cable television to Alberta. The purchase price was \$8 million financed from the Company's cash reserves. The acquisition was completed at the end of July, 1977, and accordingly the Company's consolidated statements for the 1977 year include Community Antenna's results for the month of August only.

Community Antenna commenced construction in 1971 and completed the wiring of its licensed area within two years. At the present time, there are more than 81,000 households in the licensed area and virtually all are passed by the company's cable facilities. The company provides service to approximately 49,000 subscribers representing a penetration of 60% of homes passed by cable. Substantial growth is expected in subscribers, both as a result of increasing penetration and from the extension of licensed boundaries to serve the expanding suburbs of Calgary.

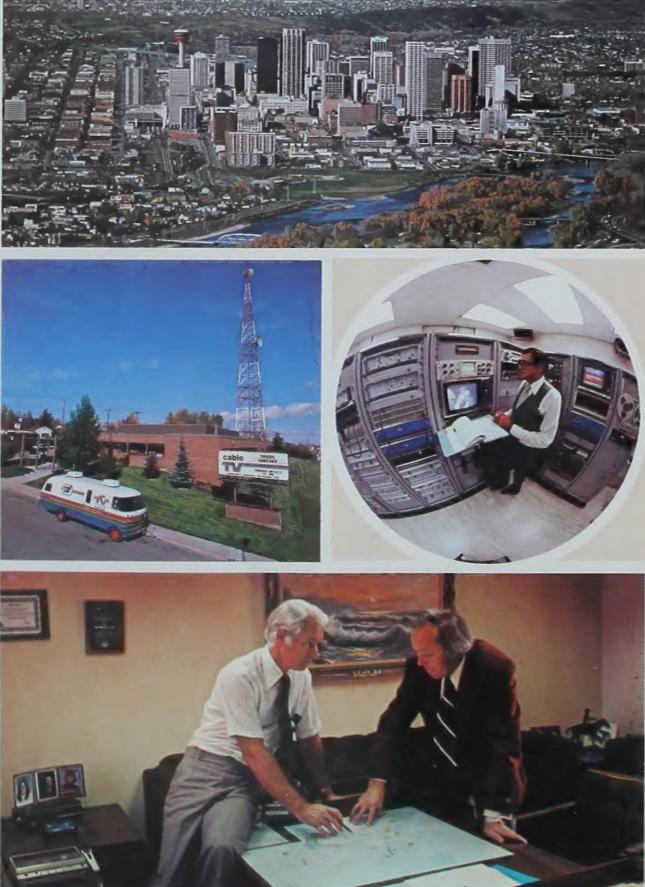
Community Antenna's management team is directed by Jack Davis, President and General

Calgary is one of Canada's fastest growing cities. The Community Antenna offices and head-end Sophisticated equipment processes signals from as far away as Washington State. Jack Davis, President and General Manager of Community Antenna with Jack Hines, Vice-President.

Manager who, as noted elsewhere in this report, has joined the Board of Canadian Cablesystems. Mr. Davis founded Community Antenna and was the person primarily responsible for bringing cable television to Alberta.

The system offers five Canadian television channels, local origination and Canadian FM signals, together with all four U.S. networks. The carriage of the NBC signal was approved in 1977. The Alberta systems are unique in that the U.S. network signals originate in Spokane, Washington and are delivered to Calgary, Edmonton and other centres via a microwave system linked to remote receiving sites in the British Columbia Rockies. U.S. television signals are not receivable in Calgary using a conventional roof-top antenna. The receiving sites are jointly owned by the two Calgary and two Edmonton cable systems and co-ordination of the microwave system is handled by Community Antenna under a management contract.

The outlook for the current year is most promising. Subscribers on service should surpass the 50,000 mark early in the 1978 fiscal year and year-over-year subscriber growth should exceed 5%.



Syracuse Cablesystems

Canadian Cablesystems Limited gained its first foothold in the United States when it successfully competed against eight American communications companies for the right to build a cable system in Syracuse, New York.

The system's potential size — 68,000 households, the limited availability of signals locally and the high household density make Syracuse one of the most attractive unbuilt cable markets in the U.S.

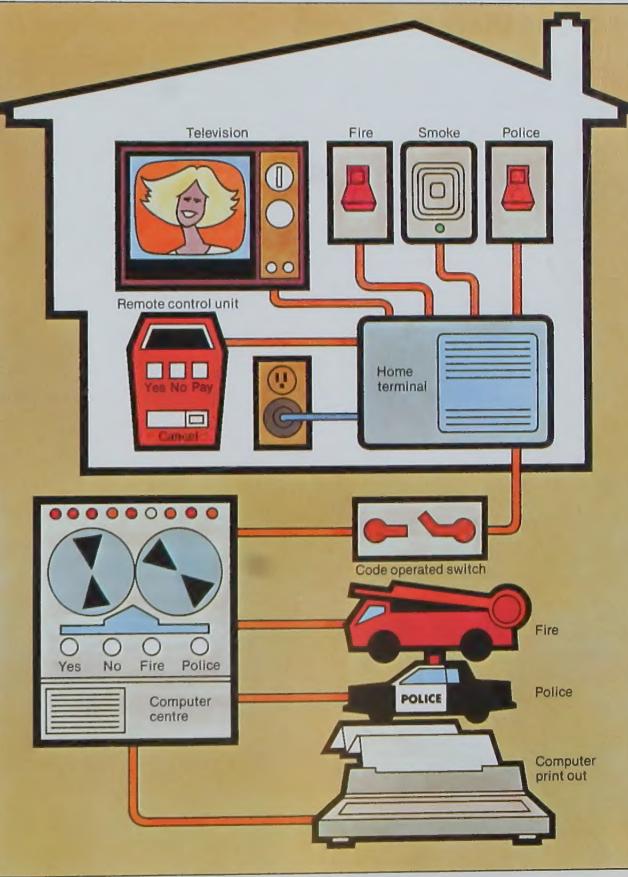
The proposed system will be one of the most advanced in North America, both in terms of technology and subscriber service. The subscriber service package will include a wide variety of local network stations and distant independent stations, some received by satellite, as well as public access channels, a "mini" and a full-scale "Home Box Office" pay TV service, various alphanumeric services such as a shopping guide, programme guide and world news, FM channels and, finally, a home alarm service. Syracuse Cablesystems will offer a number of different service options so that the subscriber can choose the one best suited to himself.

What is particularly exciting is that the Syracuse system will incorporate

an innovative engineering design to provide, from the outset, a bi-directional, interactive system. This means that information can be sent from the home as well as to it. While the means to do this have been technically available for a number of years, it has not been possible until recently to do so at an economical cost. The two-way capability will be initially utilized to provide fire, police and medical alarm services. A central computer will constantly scan the network. If an alarm is triggered in the home, the system will automatically notify the appropriate agency and transmit pertinent supplemental information.

Canadian Cablesystems will own 67% of Syracuse Cablesystems in partnership with a local group of distinguished businessmen and community leaders. A total capitalization of \$6 million is anticipated for the system, \$3 million in long-term debt and \$3 million in equity of which Canadian Cablesystems' share will be \$2 million.

Formal franchise agreements with the City are now in preparation and state and federal regulatory approvals must be obtained before construction can begin.





Canadian Cablesystems Limited

Canadian Cablesystems Limited
and Subsidiary Companies

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and Subsidiary Companies

Community Antenna Television Ltd.

The Company made its first major expansion in cable television outside of Ontario through the acquisition of Community Antenna Television Ltd., which serves the southern half of Calgary, Alberta. The purchase price was \$8 million financed from the Company's cash reserves. The acquisition was completed at the end of July, 1977, and accordingly the Company's consolidated statements for the 1977 year include Community Antenna's results for the month of August only.

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Columbia Rockies signals are not received using a conventional. The receiving site is shared by the two Calgary cable systems and microwave system. Community Antenna management com

The outlook for most promising. service should start to mark early in the year-over-year growth should exceed 5%

Calgary is one of Canada's major cities. The Community Antenna

Sophisticated equipment processes signals from as far as 100 miles. Jack Davis, President and General Manager of Community Antenna will

Operating Systems, Associated Companies and Investments

CABLE TELEVISION

Wholly-Owned

	Percentage Interest of the Company
Cornwall Cablevision	100%
Grand River Cable TV	100%
Hamilton Co-Axial	100%
Jarmain Cable TV—Brantford	100%
—Newmarket	100%
London Cable TV	100%
Metro Cable TV	100%
Pine Ridge Cable TV	100%

Associated

Chatham Cable TV Limited	50%
Kingston Cable TV Limited	50%
Alberni Cable Television Limited	20%

BROADCASTING

Bushnell Communications Limited	6.3%
Tele-Capital Ltd.—Télé-Capitale Ltée	18%

THEATRES

Famous Players Limited	48.8%
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OTHER

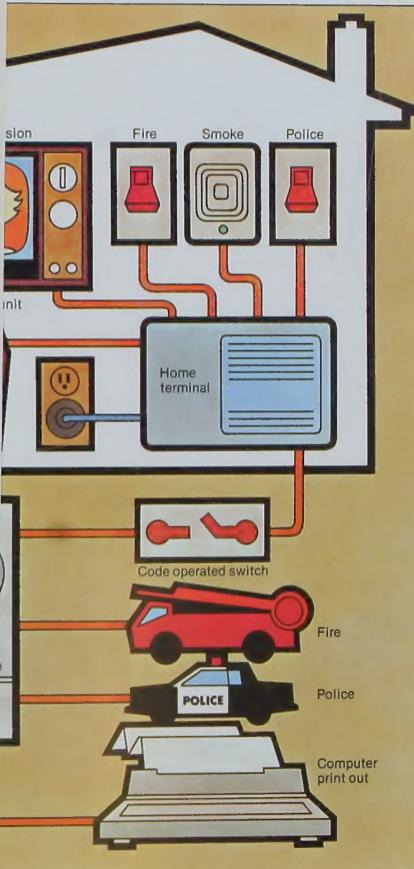
Cableshare Limited	50%
Agra Industries Limited	31,673 shares

Consolidated Statement of Changes in Financial Position

	Six months to February 28 (\$000's)	
	1977	1976
Source of Funds		
Net earnings	\$ 2,896	\$ 4,765
Add (deduct) non cash items		
Depreciation	2,628	2,303
Deferred income taxes	36	284
Equity in undistributed earnings	(516)	(2,552)
Cash flow from operations	\$ 5,044	\$ 4,800
Issue of shares	—	159
Other	—	100
Reduction in long-term receivables	20	—
	\$ 5,064	\$ 5,059
Use of Funds		
Additions to fixed assets	\$ 3,024	\$ 2,788
Dividends paid and payable	676	676
Reduction of long-term debt	2	16
Increase in long-term receivables	—	58
Reduction of bank loan	—	1,149
	\$ 3,702	\$ 4,687
Increase in working capital	\$ 1,362	\$ 372
Working capital (deficiency) August 31	1,266	(3,331)
Working capital (deficiency) February 28	\$ 2,628	\$ (2,959)

Interim report to
shareholders
for the six months
ended February 28, 1977

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Community Antenna Television

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To the Shareholders

The earnings performance of the Company's cable operations and equity in Famous Players Limited for the six months ended February 28, 1977 compared to the same period last year is:

	Second Quarter		First Half	
	1977	1976	1977	1976
	(\$000)	(\$000)	(\$000)	(\$000)
Cable operations and investment income	\$ 992	\$ 875	\$ 1,978	\$ 1,706
Equity in earnings of Famous Players Limited				
—theatres and rental properties	73	440	541	1,277
—real estate sales	275	1,775	377	1,782
Total Earnings	\$1,340	\$3,090	\$2,896	\$4,765
Earnings per share				
—cable operations & investment income	24.8¢	22.1¢	49.6¢	43.0¢
—theatres and rental properties	1.8	11.1	13.6	33.2
—real estate sales	6.9	44.8	9.4	44.8
	33.5¢	78.0¢	72.6¢	\$1.20

Cable Operations

Revenues from cable services increased at the same rate attained during the first quarter. Inflationary increases in costs continue to exert pressure on operating margins. Increases in rates were recently approved by the Canadian Radio-television and Telecommunications Commission for the Pine Ridge system (50¢ a month) and the Brantford and Newmarket systems (\$1.00 a month).

These rate increase approvals were received in late February and have since been implemented. The CRTC recently heard an application by the Cornwall system to increase its rates from \$5.00 to \$7.00 a month. This major increase reflects the provision of a 16 channel service utilizing a dual cable system as opposed to the more conventional converter service offered by most other systems. The dual cable system obviates the need for a converter.

The Minister of Communications, The Honourable Jeanne Sauve, recently tabled proposed legislation to make important changes in the regulation of telecommunication undertakings in Canada. It is expected that the proposed

legislation will attract considerable discussion both in and out of the Commons during the coming months. Although the precise application of the legislation is not clear in a number of areas, it is likely that the Provinces will have more influence in the regulation of cable television both directly and through agreements that each Province may negotiate, from time to time, with the federal Minister. The legislation also proposes that the federal Minister and the Cabinet should play a much larger role in determining policies to be administered by the Canadian Radio-television and Telecommunications Commission. This contrasts with the present situation where the CRTC is a relatively independent policy-making and regulatory authority.

Famous Players

Famous Players' theatre operations continue to show a trend of declining profits. Although attendance increased by 7% in the second quarter as compared to the second quarter last year, increases in operating costs attributable to inflation and the opening of new theatres have caused a severe erosion of profit margins. This disappointing per-

Consolidated Statement of Earnings (Unaudited)

	Six Months to February 28 1977	1976	Percent Increase (Decrease)
	(\$000)	(\$000)	(%)
Revenue			
Cable services	\$11,138	\$10,019	11.2%
Rental and sale of converters	1,360	1,042	30.5
	\$12,498	\$11,061	13.0
Expenses			
Operating, general & administration	6,201	5,470	13.4
Depreciation & amortization	2,628	2,303	14.1
Interest	705	417	69.1
	\$9,534	\$8,190	16.4
	\$2,964	\$2,871	3.2
Equity in earnings before income taxes, of associated cable companies	181	92	
Other income	105	128	
Earnings before income taxes from cable operations	\$3,250	\$3,091	5.1
Investment income	322	140	
	\$3,572	\$3,231	10.6
Income taxes	1,594	1,525	4.5
	\$1,978	\$1,706	15.9
Equity in earnings of Famous Players Limited*	918	3,059	(70.0)
Net earnings for the period	\$2,896	\$4,765	(39.2)
Earnings per share	72.6¢	\$1.20	

*Equity in earnings of Famous Players Limited is for the six months ended December 31 of each year.

formance by Canadian theatres was further aggravated by losses in the theatre chain in France. Confection profits continue to show a steady growth as do property rental profits.

Sales of real estate were much lower than the high level reported in 1976.

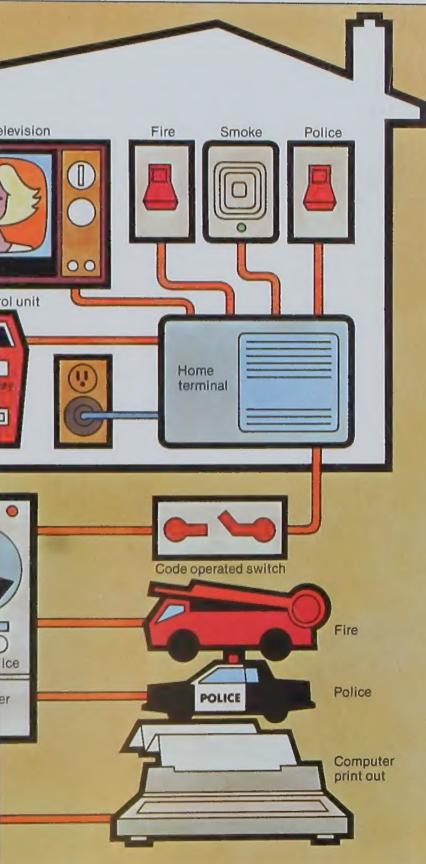
The Anti-Inflation Board has informed Famous Players that its confection subsidiary, Theatre Confection Holdings Limited, has experienced "excess revenue" during the year ended June 30, 1976 and is continuing to accumulate "excess revenue" during 1977. Famous Players disputes the interpretation of the Act that has led the Board to this conclusion and the matter is now under review between the Company and the officials of the Anti-Inflation Board.

Famous Players' management has indicated that, although improved attendances are expected during the second half of the year, increases in operating costs will continue to erode profits. As a result of this profit erosion, together with the restraints of the Anti-Inflation Act, it is now expected that profits from theatres and rental properties will be significantly lower than the earnings for 1976.

On Behalf of the Board of Directors

A. F. Griffiths
Chairman and Chief Executive Officer

April 26, 1977



Famous Players Limited

Background

Famous Players is Canada's largest exhibitor of motion pictures, and is owned 51.1% by Gulf + Western Industries and 48.9% by Canadian Cablesystems. The company has an interest in some 250 theatres and drive-ins across Canada which operate approximately 400 screens. Of these, about 180 theatres (310 screens) are 100% owned or leased.

The company is also engaged in real estate development in Canada and has an interest in about 70 motion picture auditoriums in France.

The 1977 year was a difficult one for Famous Players. Total net earnings after tax declined from \$12.9 million to \$7.3 million, a decline of \$5.6 million.

Reduced profit from the disposal of surplus real estate accounted for \$2.6 million of this decline, with the remaining \$3.0 million being associated with theatre and rental property operations.

Theatres

The decline in overall theatre profitability stems largely from the Canadian theatre division, while the confections and equipment sales subsidiaries and the French theatre operation reported essentially the same contribution as in 1976.

"Looking for Mr. Goodbar" features Diane Keaton. (Top left)
Clint Eastwood stars in "The Gauntlet". (Centre left)
"Semi-Tough" starring Burt Reynolds and Kris Kristofferson. (Bottom left)

The average admission price in 1977 increased by approximately 5%, but was, however, offset by a 6% decline in attendance. The decline in attendance was not consistent throughout the year but paralleled the calibre and quantity of new releases of films. Generally, the 1977 film product was much poorer than the previous year.

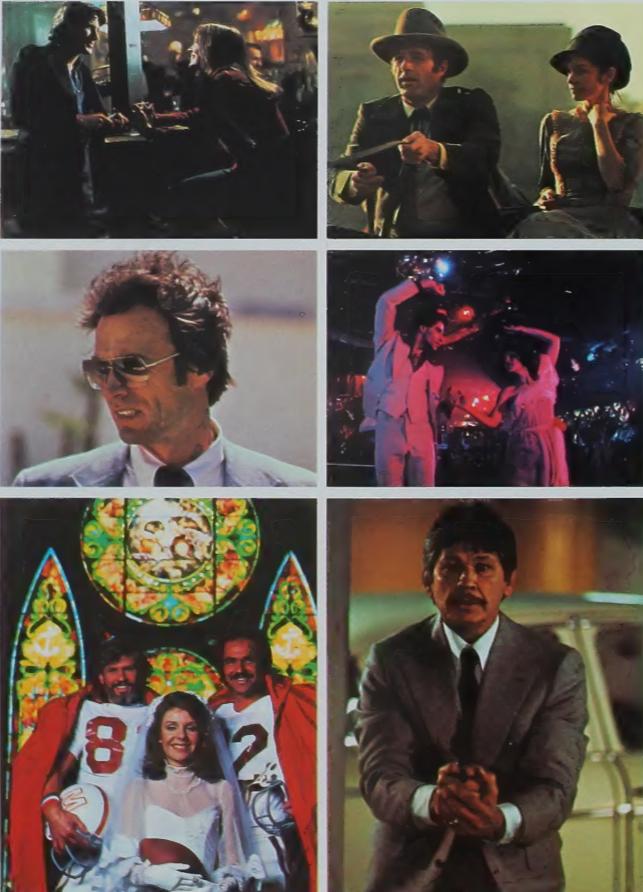
Famous Players' single largest cost, film rental, declined modestly in 1977. However, operating expenses, other than cost of product, rose by more than 10%. The essentially flat revenues, together with the growth in costs, combined to sharply reduce operating income.

Because the industry experienced similar results in fiscal 1977, Famous Players' share of pre-tax profits from theatres owned 50% or less declined to \$281,000 from \$1,228,000 the previous year.

General Costs

Overall corporate overhead grew by just over 10% in 1977. Interest expense rose sharply in 1977 from \$1.25 million in 1976 to \$2.63 million in 1977 reflecting the large increase in long-term debt to finance theatre modernization and expansion as well as rental property development.

James Caan and Genevieve Bujold join forces in "Another Man, Another Chance". (Top right)
John Travolta starring in "Saturday Night Fever". (Centre right)
Charles Bronson as Russian agent in "Telefon". (Bottom right)



Motion Picture Releases

In spite of the attendance shortfall, there were a number of successful motion pictures introduced during fiscal 1977. In particular, such films as "Rocky", "King Kong", "The Pink Panther Strikes Again", "A Star is Born", "Network", "The Enforcer" and "The Silver Streak" were exhibited by Famous Players. In the current fiscal year to date, attendance is ahead of last year, due to the success of such films as "The Spy Who Loved Me", "One On One" and "Annie Hall".

The quality and supply of films due to be released during fiscal 1978 is promising and expectations are that revenues will keep pace with cost increases.

Rental Properties

Revenue from the rental properties increased from \$6.1 million in 1976 to \$6.9 million in 1977 largely due to the Capitol Square in Edmonton coming on stream in July 1976. During fiscal 1978, the Capitol Centre in Montreal will make a significant contribution to rental revenue.

On balance, the rental properties are performing satisfactorily.

The Imperial Six in downtown Toronto was converted from a single screen to six auditoriums. The recently-completed Capitol Centre in Montreal is one of four developments owned by Famous.

Operating income and cash flow are positive and growing. Occupancy and rental rates are generally satisfactory although below target.

Sales of Property

Property sales in 1977 declined sharply from the \$19.3 million level of the previous year, which included the sale of the Whitehall Square apartment complex in Edmonton for \$11.9 million. Total sales in 1977 amounted to \$6.7 million which compares quite closely with the 1976 level excluding Whitehall Square. The after-tax profit for 1977 was \$5.6 million.

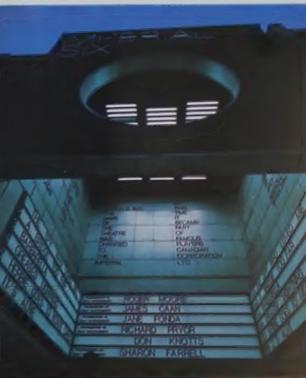
For 1978, profit from disposal of wholly-owned theatre properties is

expected to drop significantly. Subsequent to the 1977 year end, Famous sold its 50% interest in Theatre Holding Corporation, which owned and operated approximately sixty theatres and drive-ins across Ontario. This group has not made a large contribution to consolidated profits or cash flow over the past few years. The sale price was \$3.7 million payable in installments of \$150,000 per year with the balance payable in 1982. Profit on the sale will be recognized in stages as installments are received.

Capital Expenditures

Capital expenditures dropped sharply in 1977 to \$16.9 million

Famous Players Limited Selected Statistics					
	Years ended June 30				
	1973	1974	1975	1976	1977
Theatre attendance	26.1	28.2	28.5	29.4	27.7 (Millions)
Admission revenue per patron	1.86	2.11	2.41	2.65	2.79
Number of theatres and drive-ins ^a	181	185	182	183	179
Number of screens ^a	227	251	256	280	307
^a Wholly-owned					



from \$27.1 million in 1976, largely due to the completion of the Capitol Centre in Montreal. Fully two-thirds of the 1977 expenditures were for continued theatre expansion and modernization. Approximately fifty new screens were added during the year while about twenty were disposed of. For fiscal 1978 and beyond, expenditures are expected to be more moderate on the theatre side. There will be continuing expenditures associated with real estate development projects such as the joint venture with Cadillac Fairview Corporation involving the development of the 85-acre North-West Drive-In site near Toronto International Airport as an office/industrial complex.

Statistical Review 1973-1977

	1973	1974	1975	1976	1977
Financial ('000)					
Earnings from cable operations and investment income (after tax)	\$ 2,037	\$ 2,139	\$ 2,507	\$ 3,111	\$ 4,156
Equity in earnings of Famous Players Limited					
—Theatres and rental properties	742	1,296	1,933	2,300	853
—Real estate sales	885	929	1,489	4,004	2,723
Equity in losses of Edmonton World Hockey Enterprises Ltd.	(164)	(273)	—	—	—
Net earnings (before extraordinary items)	\$ 3,500	\$ 4,091	\$ 5,929	\$ 9,415	\$ 7,732
Cash flow from operations	4,735	6,285	8,410	9,675	14,468
Capital expenditures	2,852*	6,427*	8,835	7,656	7,392
Current assets	2,231	3,108	2,195	9,379	7,819
Investments	31,937	28,065	28,323	33,419	34,227
Net fixed assets	11,215	19,453	24,175	26,716	33,388
Goodwill	9,344	19,006	19,006	19,006	24,791
Total assets	\$54,727	\$69,632	\$73,699	\$88,520	\$100,225
Current liabilities	2,970	5,328	5,526	8,113	9,880
Long-term debt and bank loans	2,013	9,671	8,457	12,036	12,481
Deferred income taxes	1,354	2,089	2,808	3,242	6,188
Shareholders' equity	48,390	52,544	56,908	65,129	71,676
Total liabilities and equity	\$54,727	\$69,632	\$73,699	\$88,520	\$100,225
Average number of shares outstanding	3,915	3,919	3,970	3,986	3,993
Per Share					
Net earnings, before extraordinary items	\$ 0.89	\$ 1.04	\$ 1.49	\$ 2.36	\$ 1.94
Cash flow from operations	1.21	1.60	2.12	2.43	3.62
Dividends	0.28	0.28	0.31	0.34	0.36
Shareholders' equity	12.36	13.41	14.34	16.34	17.95
Share price—high‡	19.50	18.75	15.00	18.13	15.00
—low‡	13.50	7.63	10.00	12.13	11.00
Subscriber Data					
Total subscribers at year end	309,000	376,000	409,000	431,000	442,000
Households passed by cable	486,000	534,000	562,000	578,000	593,000
Penetration	63.7%	70.4%	72.7%	74.6%	74.4%
Canadian Cablesystems' equity in total subscribers	230,000	337,000	358,000	374,000	428,000

*Capital expenditures are those incurred by wholly owned subsidiaries from date of acquisition and therefore exclude expenditures by the London, Pine Ridge and Jarman systems prior to January 31, 1974.

‡Calendar years: 1977 prices are to November 30th.

Management's Discussion and Analysis of Operations

Subscriber Growth

Excluding the acquisition of Community Antenna, net growth in subscribers in 1977 was 5,579, down from the 15,986 increase achieved in 1976. As reported in "Cable TV Operations", the major part of this reduction in growth occurred in the Grand River system following a major transition of apartment subscribers from bulk payment by the building owner to individual payment by the tenant. Aside from Grand River all of the Company's systems increased their subscriber count. However, the increases were less than planned primarily due to lower housing starts in some systems and a soft consumer spending climate.

At year end, 11.5% of subscribers had rented converters from the Company. Excluding the subscribers of Community Antenna and Cornwall, which do not offer a converter service, converter rental penetration at August 31, 1977 was 13.5% (10.9% in 1976). During 1977, sales of converters totalled 8,891 compared to a 1976 sales volume of 7,207. Penetration of second outlets (TV and FM) was 31.9% (31.4% in 1976).

Revenue

Revenues for 1977 totalled \$26.3 million, an increase of \$3.4 million.

Of this increase, \$0.4 million is attributable to the inclusion of Community Antenna for the month of August, 1977. Of the remaining \$3.0 million of increased revenue, \$2.8 million (13.8% increase) flowed from basic cable services and \$0.2 million (8.5% increase) from the rental and sale of converters.

The growth in basic service revenue was primarily attributable to increases in monthly rates in certain systems. Including converter revenue and Community Antenna's revenue per subscriber increased from \$64.43 in 1976 to \$71.54 in 1977.

Operating Costs and Margins

Operating costs increased by 13.4% compared to 15.1% increase in revenues. As a result, the operating margin improved from 49.0% in 1976 to 49.8% in 1977. Excluding the cost of converters sold as well as Community Antenna's operating costs for the month of August, 1977, the year-to-year increase in costs was 12.1% primarily due to inflationary increases in wages and other costs.

Interest Expense and Investment Income

The 1977 year was the first full year



in which the \$12 million of Series A debentures were outstanding with the result that interest expense rose sharply. However, the Company's surplus cash (most of which was utilized in July, 1977 for the purchase of Community Antenna) generated substantial interest and dividend income. This, combined with dividend income from other investments, offset most of the increase in interest expense.

Associated Companies

Canadian Cablesystems accounts for its interest in Chatham Cable TV, Kingston Cable TV and Cableshare on an equity basis. All three companies reported sharply higher profits in 1977 and, as a result, the Company's pre-tax interest in the earnings of these companies rose from \$144,000 in 1976 to \$345,000 in 1977. The contribution from associated companies will decline in 1978 when Chatham Cable TV will be reported as a wholly-owned subsidiary.

Cash Flow From Operations

Cash flow from operations totalled \$14.5 million in 1977, an increase of \$4.8 million over 1976. Cable profits and depreciation were significantly higher yielding \$1.3 million of the increase in cash flow. Deferred taxes

were unusually high primarily due to changes in income tax regulations allowing the expensing of a portion of subscriber drops for tax purposes that have historically been capitalized in the Company's accounts. The Company also received a \$2.7 million final dividend payment from Famous Players under the 1971 six year dividend agreement between the Company and Gulf + Western (Canada) Limited.

Famous Players has ceased to pay regular quarterly dividends and the Company is unable to say when dividend payments will resume.

Capital Expenditures

During 1977 capital expenditures totalled \$7.4 million. Major projects included the completion of a plant rebuild at Cornwall (\$0.5 million), the continuation of a plant rebuild in London (\$0.8 million) and the initial costs of construction of new premises and a new microwave distribution system at the Grand River system (\$1.3 million).

spending of Chatham and Community Antenna for the 1978 year (\$1.0 million).

Dividends

The quarterly dividend rate was increased with the third quarter payment from 8.5¢ per share to 9.5¢ per share.

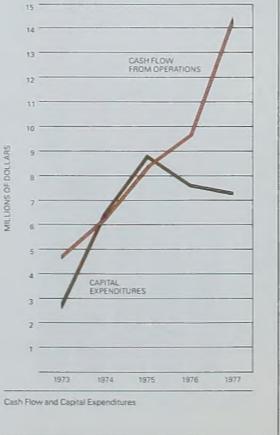
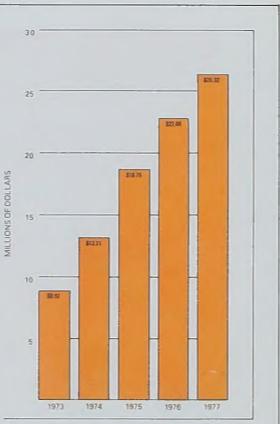
Balance Sheet

Total assets at year end stood at \$100 million. Cash and short term investments stood at \$3.9 million. Goodwill rose by \$5.8 million representing the excess purchase price of Community Antenna over its net tangible assets.

Long term debt totalled \$12.5 million while shareholders' equity rose 10% to \$71.7 million producing a debt to total capital ratio of 15%.

Return on Capital

Including Famous Players, the Company achieved an after-tax return on average shareholders' equity of 11.3%. Excluding Famous Players, the comparable figure is 10.8%.



A representation of the glass fibre and the laser. The wave form represents the conversion from the common "analogue" signal to the more efficient "digital" signal used in fibre optic transmission.

The Company intends to grow and diversify over the next few years both in the cable industry and in related fields.



Outlook

Research and Development — Fibre Optics

An important breakthrough in communications has been the recent development of technology allowing the transmission of electronic signals by laser beam through hair-like, flexible threads of glass.

In 1977, Canadian Cablesystems elected to proceed with a major field trial experiment in the London system aimed at providing a learning experience for the cable industry and establishing Canadian leadership in fibre optics technology and manufacturing.

A consortium consisting of five of the largest cable television companies in Canada, together with Canada Wire and Cable Company Limited was formed to undertake the \$1.65 million experiment. It is expected that the Federal Department of Communications will also participate in the project and the financing.

Cablesystems Engineering, the Company's engineering division, will provide project engineering and coordination.

The potential of fibre optics transmission for cable television is immense:

- The information-carrying capacity of a fibre may ultimately be many times that of coaxial cable.
- The fibre is small, light, flexible and rugged.
- Signals can be transmitted approximately four times further before they need to be amplified.
- Signals are almost completely immune from electromagnetic or electrical interference.
- Distortion of the signal is virtually zero.
- Construction and maintenance costs are expected to be greatly reduced.

The test link installation is scheduled for mid-1978 and will carry 15 TV and 12 FM stereo channels on 6 fibres, over an 8 kilometre distance.

The Company is hopeful that the ultimate adoption of this technology will mean better quality pictures, increased choice of services, the extension of service to outlying communities and reduced costs.

Future Corporate Growth

As cable systems become more mature, the rate of growth of subscribers generally slows. Future growth in revenues therefore depends

on improving the revenues received from each subscriber.

While rate increases will alleviate cost pressures, additional services must be looked to for any significant increase in profitability. The future of pay television in Canada remains uncertain. Other services are being monitored and evaluated for possible introduction.

One area which can provide immediate benefits is cost control and Cablesystems is actively engaged in a cost/benefit analysis and work simplification programme designed to seek out permanent changes to methods that will result in more efficient operations.

The Company is also committed to expanding not only within its basic business, cable television, but also into related fields in Canada and the United States. There is a need to supplement internal growth and, fortunately, the Company has the ability to do so using its debt capacity and reserves. The first steps in that direction were taken in 1977. Looking ahead, the Company is confident that sound investments can be found which offer a fair return for the risks involved.

Consolidated Statement of Earnings

	Year Ended August 31	
	1977 (\$000)	1976 (\$000)
Revenue		
Cable services	23,854	20,604
Rental and sale of converters	2,466	2,272
	26,320	22,876
Expenses		
Operating, general and administration	13,224	11,661
Depreciation and amortization	5,562	5,115
Interest on long-term debt and bank loans (Note 6)	1,438	1,087
	20,224	17,863
Equity in earnings before income taxes of associated cable companies	6,096	5,013
Other income	345	144
	278	248
Earnings before Income taxes from cable operations	6,719	5,405
Investment income	690	464
Income taxes (Note 8)	7,409	5,869
Current	1,821	2,324
Deferred	1,432	434
	3,253	2,758
Earnings from cable operations and investment income	4,156	3,111
Equity in earnings of Famous Players Limited	3,576	6,304
Net earnings for the year	7,732	9,415
Earnings per share (Note 9)		
Basic	\$ 1.94	\$ 2.36
Fully diluted	\$ 1.79	\$ 2.18

Consolidated Statement of Changes in Financial Position

	Year Ended August 31	
	1977 (\$000)	1976 (\$000)
Source of funds		
Operations—		
Net earnings	7,732	9,415
Items not affecting current funds		
Depreciation and amortization	5,562	5,115
Deferred income taxes	1,432	434
Equity in undistributed earnings of Famous Players Limited and associated companies (Note 13)	(258)	(5,289)
	14,468	9,675
Reduction in long-term notes receivable	47	103
Issue of shares	251	159
Reduction of investments in other companies	—	100
Issue of debenture	—	12,000
	14,766	22,037
Use of funds		
Additions to fixed assets (net)	7,392	7,656
Reduction of long-term debt and bank loans	5	8,421
Dividends paid and payable	1,436	1,353
Investment in other companies	19	10
Acquisition of Community Antenna Television Ltd. (Note 4)	7,986	—
Net current liabilities of Community Antenna Television Ltd.	705	—
Advance payment for acquisition of Chatham Cable TV Limited	550	—
	18,093	17,440
Increase (decrease) in working capital for the year	(3,327)	4,597
Working capital (deficiency) at beginning of year	1,266	(3,331)
Working capital (deficiency) at end of year	(2,061)	1,266



Consolidated Balance Sheet

	August 31	
	1977	1976
	(\$000)	(\$000)
ASSETS		
Current assets		
Cash and short-term notes	3,889	6,730
Marketable securities, at cost (market value \$2,172,000; 1976—\$757,000)	1,735	595
Accounts receivable	1,148	1,394
Current portion of long-term receivables	200	5
Inventories of materials at the lower of cost and net realizable value	645	496
Prepaid expenses	202	159
	7,819	9,379
Investments		
Long-term receivables (Note 2)	805	852
Investments (Note 3)		
—Famous Players Limited	29,795	29,843
—Associated companies	1,955	1,076
—Other investments	1,672	1,648
	34,227	33,419
Fixed assets , at cost (Note 5)	65,408	51,040
Less: Accumulated depreciation and amortization	(32,020)	(24,324)
	33,388	26,716
Excess of carrying value of subsidiaries over value of underlying net assets acquired	24,791	19,006
	100,225	88,520

	August 31	
	1977	1976
	(\$000)	(\$000)
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	—	104
Accounts payable and accrued expenses	2,946	1,918
Dividend payable	380	338
Income taxes	1,526	1,939
Current portion of long-term debt	53	17
Prepayments for services	4,975	3,797
	9,880	8,113
Long-term debt and bank loans (Note 6)	12,481	12,036
Deferred income taxes	6,188	3,242
Shareholders' equity		
Capital stock (Note 7)		
Issued—4,004,611 shares (1976—3,986,926)	13,714	13,463
Share purchase warrants	1,000	1,000
Reorganization surplus	6,235	6,235
Retained earnings	50,727	44,431
	71,676	65,129
	100,225	88,520

Approved by the Board

RF Cuffe Inc

Director

W. Edward Johnson

Director



Consolidated Statement of Retained Earnings

	Year Ended August 31	
	1977	1976
	(\$000)	(\$000)
Balance at beginning of year		
Net earnings for the year	44,431	36,369
	7,732	9,415
	52,163	45,784
Less: Dividends—36¢ per share (1976—34¢ per share)	1,436	1,353
Balance at end of year	50,727	44,431

Auditors' Report

To the Shareholders of
Canadian Cablesystems Limited:

We have examined the consolidated balance sheet of Canadian Cablesystems Limited as at August 31, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included

such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of other auditors who have examined the consolidated financial statements of Famous Players Limited.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at August 31, 1977 and the results of its operations and the changes in its

financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

P. Watkinson & Co.
Chartered Accountants

Toronto, Canada
November 11, 1977

Notes to Consolidated Financial Statements August 31, 1977

1. Accounting Policies:

(a) **Consolidation —**

(i) The consolidated financial statements include the accounts of the Company and all its subsidiaries.

(ii) The Company's investments in Famous Players Limited (48.9% owned), Chatham Cable TV Limited (50% owned), Kingston Cable TV Limited (50% owned) and Cablesquare Limited (50% voting shares, 72% non-voting shares owned) are accounted for on the equity basis. Accordingly, the Company's equity in the earnings of these companies is included in the consolidated statement of earnings.

(iii) The Company reports its equity in the earnings of Famous Players Limited on a two-month delay basis. Accordingly, the Company's equity in the earnings of Famous Players Limited is based on earnings for its fiscal year ended June 30.

(b) **Capitalization policy —**

The distribution system includes the cost of the head-end, cable and electronic equipment as well as the cost of materials and installation for subscriber connections. During construction or rebuilding phases, only direct costs are capitalized. Accordingly, all interest and overhead costs are expensed in the year in which they are incurred.

(c) **Depreciation —**

The cable, plant and other fixed assets are depreciated over their estimated useful lives as follows:

Buildings	— 5% diminishing balance
Tower and head-end	— 15% straight line
Distribution cable	— 10% straight line
Electronic equipment	— 15% straight line
Subscriber drops and devices	— 10% straight line
Converters	— 33 1/3% straight line
Other equipment	— mainly 20% and 30% diminishing balance

Leasehold improvements — over the term of the lease

(d) **Income and expenses —**

Income from cable services includes earned subscriber service revenue and charges for installations and connections. Subscriber service paid in advance is taken into income as earned. The cost of the initial subscriber installation is capitalized as part of the distribution system. Costs of subsequent disconnections and reconections are expensed.

(e) **Goodwill —**

The excess of cost of shares in subsidiary and associated companies over value of underlying net assets which arose prior to March 31, 1974 is not amortized unless the value is impaired. Goodwill of \$5,798,000 which arose in July 1977 is being amortized over a 40 year period.

(f) **Deferred income taxes —**

Deferred income taxes have been provided at prevailing rates and arise mainly from claiming capital cost allowances (depreciation for income tax purposes) in excess of depreciation recorded in the financial statements and claiming for tax purposes a portion of subscriber drop costs capitalized for accounting purposes.

2. Long-term receivables: August 31

	1977 (\$000)	1976 (\$000)
Receivable under Share Purchase plans, including \$380,000 (1976 — \$403,000) from officers and directors	930	767
Miscellaneous notes and loans receivable	75	90
Total underlying assets acquired	1,005	857
Less: Current portion	200	5
	805	852

3. Investments:

(a) **Famous Players Limited —**
The carrying value of the Company's investment in Famous Players Limited (48.9% owned)

is equal to its equity in the net assets of that company as at June 30, 1977.

The audited consolidated financial statements of Famous Players Limited for the year ended June 30, 1977 are set out on Pages 21 to 25 of this report.

(b) **Associated companies —**

The carrying value of the Company's investments in associated companies is equal to their written-up fair values at January 3, 1971, with subsequent additions at cost, plus the Company's equity in undistributed earnings since that date or since acquisition.

The excess of the carrying value of the Company's investment in associated companies over its equity in the value of the underlying net assets amounted to \$835,000 at August 31, 1977.

(c) **Other investments —**

The carrying value of the Company's other investments is equal to their written-up fair values at January 3, 1971 plus subsequent additions at cost.

1977. Had Community Antenna been a subsidiary of Canadian Cablesystems for the full twelve months of 1977, the pro forma after tax earnings of Canadian Cablesystems, net of goodwill amortization and interest, would have been increased by \$335,000 (8¢ per share).

(b) On September 6, 1977, subsequent to the year end, the Company acquired the remaining 50% of the shares of Chatham Cable TV Limited not previously owned. The purchase consideration was \$550,000 and this amount is included in "Investment—Associated Companies" on the Company's balance sheet at August 31, 1977.

(c) A New York State partnership in which the Company will hold a two-thirds interest, is expected to conclude a franchise agreement with the City of Syracuse, New York. The Company anticipates that its share of the equity investment will be approximately \$2 million.

5. Fixed assets, at cost:

	August 31	
	1977 (\$000)	1976 (\$000)
Land and buildings	2,180	976
Tower and head-end	1,726	1,272
Distribution cable	20,507	16,239
Electronic equipment	12,012	10,489
Subscriber drops and devices	19,099	13,472
Converters	2,670	2,436
Other equipment	5,849	4,642
Leasehold improvements	685	689
Construction in progress	569	825
Deferred costs	101	—
	65,408	51,040
The acquisition has been accounted for on the purchase basis and further details are as follows:		
	(\$000)	
Total underlying assets acquired	5,979	
Total underlying liabilities acquired	3,791	
	2,188	
Purchase price in cash	7,986	
Excess of cost over value of underlying net assets acquired	5,798	
	(32,020)	(24,324)
	33,388	26,716

The excess of cost over value of underlying net assets acquired of \$5,798,000 will be amortized over a 40 year period.

The operating results of Community Antenna have been included for the month of August,

The major part of the Company's investment in distribution cable is held under leases from Bell Canada expiring at various dates with original minimum terms of 10 years.



Consolidated Balance Sheets

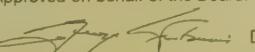
ASSETS

	June 30	
	1977	1976
Current assets:		
Cash and deposit receipts	555	1,150
Accounts receivable, including current portion of mortgages receivable, and net of allowance for doubtful accounts	2,357	1,122
Due from affiliated companies	1,374	847
Inventories, at the lower of cost or net realizable value	2,397	2,293
Prepaid expenses and other current assets	6,304	3,118
Total current assets	12,987	8,530
Fixed assets (Notes A and F):		
Land and buildings	85,668	67,718
Equipment and leaseholds	50,921	47,114
Construction in progress	22,519	31,206
	159,108	146,038
Accumulated depreciation and amortization	(45,680)	(44,722)
Net fixed assets	113,428	101,316
Other assets:		
Investments in associated companies and joint enterprises (Note B)	8,149	6,631
Notes and mortgages receivable, due after one year (Note C)	3,061	573
Excess of cost of subsidiaries over their underlying book value	1,499	1,499
Total other assets	12,709	8,703
	139,124	118,549

LIABILITIES AND SHAREHOLDERS' EQUITY

	June 30	
	1977	1976
Current liabilities:		
Bank indebtedness	4,983	1,070
Accounts payable	8,596	9,446
Due to affiliated companies	4,041	1,033
Dividend payable	5,624	—
Current portion of long term debt	1,410	887
Income taxes payable	—	968
Accrued expenses and other current liabilities	4,469	4,804
Total current liabilities	29,123	18,208
Non-current liabilities:		
Long term debt, less current portion (Note E)	43,029	34,578
Deferred income taxes	4,865	3,500
Other non-current liabilities	913	987
Total non-current liabilities	48,807	39,065
Minority interest	202	186
Shareholders' equity:		
Capital stock—		
Common shares, no par value		
Authorized—10,000,000 shares	32,934	32,934
Issued — 7,178,288 shares	6,635	6,635
Contributed capital		
Retained earnings	21,423	21,521
Total shareholders' equity	60,992	61,090
	139,124	118,549

Approved on behalf of the Board:

 Director Director

6. Long-term debt and bank loans: August 31

	1977	1976
	(\$000)	(\$000)
Series A 11 1/4% Sinking Fund Debentures, due March 31, 1996	12,000	12,000
Bank loans bearing interest at prime plus 1%	500	—
Other long-term debt	34	53
Less: Current portion	53	17
12,481	12,036	

The series A Debentures are issued by a wholly-owned subsidiary Canadian Cable-systems (Metro) Limited ("Metro"). The Debentures are secured by a floating charge on the undertaking and assets of "Metro" and are guaranteed by Canadian Cablesystems (Ontario) Limited, a subsidiary company in the amount of \$4 million, which guarantee is secured by a floating charge over the assets and undertaking of that company. The Debentures are redeemable at the option of "Metro" and must be repaid by sinking fund payments in the amount of \$600,000 annually from March 31, 1979 to 1995.

The \$500,000 bank loan is held by Community Antenna Television Ltd., a newly acquired subsidiary, and is repayable by installments of \$50,000 in each of the years 1978 through 1981 and \$300,000 in 1982. The loan is secured by a general assignment of book debts and a fixed and floating debenture on all of Community Antenna Television Ltd.'s assets.

7. Capital stock and share purchase warrants:

	1977	1976
	(\$000)	(\$000)
(a) Capital Stock Issued:		
3,986,926 Common Shares without par value	—	13,463
3,957,556 Class A Common Shares	13,553	—
47,055 Class B Common Shares	161	—
	13,714	13,463

(b) Share purchase warrants entitling the bearers to purchase 618,992 shares on or before December 31, 1979 have been issued and are outstanding. Each share purchase warrant entitles the bearer to purchase 1.03 common shares at \$24.26 which price is subject to downward adjustment under the antidilution provisions of the Share Purchase Warrant Indenture.

(c) By supplementary letters patent dated July 5, 1977, the issued and unissued common shares of the Company were reclassified as Class A Common Shares and new Class B Common Shares were created. The Class A and Class B shares are interconvertible and have generally the same rights, each being entitled to one vote per share. The main difference between the two classes is that dividends on Class B Shares may be tax deferred dividends and dividends on Class A Shares will be ordinary dividends.

(d) Effective September 7, 1977, the Company was continued under the Canada Business Corporations Act. The Articles of Continuance impose restrictions on the transfer, voting and issue of shares of the Company.

(e) The Company has an Executive Share Purchase/Stock Option Plan and an Employee Share Purchase Plan. During the year, 17,685 common shares were issued under these Plans for a total consideration of \$251,469, which was financed by non-interest bearing loans. Subsequent to the year end, 3,000 common shares were issued under these plans which was financed by a non-interest bearing loan of \$39,390.

Under the terms of the Employee Share Purchase Plan, the employees have waived their rights to the receipt of dividends until the shares, aggregating 9,475 at August 31, 1977, have been fully paid.

At August 31, 1977, there were 52,412 shares subject to issue under the Executive Stock Option Plan at prices from \$13.00 to \$17.75 per share expiring between 1979 and 1982. Subsequent to the year end, options on an additional 4,100 shares were granted at \$13.13 per share.

There remain 100,113 common shares set aside and held for issue under the Plans.

8. Income taxes:

The current provision for income taxes includes \$39,000 (1976 — \$27,000) in respect of the Company's equity in earnings of associated cable companies.

9. Earnings per share for the year:

The basic earnings per share are computed on the weighted average number of shares outstanding during the year of 3,993,088 (1976 — 3,986,206).

Fully diluted earnings per share have been calculated on the assumption that outstanding warrants and options are converted into capital stock and the proceeds invested at a rate of return of approximately 3.9% after income taxes to yield additional imputed earnings of \$600,000.

10. Lease commitments:

Minimum commitments under agreements and leases for the rental of premises, distribution lines and microwave amount to approximately \$1,476,000 per annum as at August 31, 1977. Rental expense for the year ended August 31, 1977 amounted to \$991,000 (1976 — \$752,000).

11. Contingent liabilities:

Under the reorganization effective January 3, 1971 Famous Players Limited assumed liability under all leases pertaining to the theatre business, and provided the Company with a formal indemnity against any loss in this regard. While the Company has been released from its obligations under some of these leases, there are still a great many lease commitments under which it remains contingently liable. The Company's management, however, believes that the Company will incur no liability under these outstanding lease commitments.

12. Anti-Inflation Program:

The Company and its operating subsidiary companies are subject to the provisions of the

Anti-Inflation Act instituted by the Federal Government effective October 14, 1975. The Company believes it has complied with the regulations and guidelines for the year ended August 31, 1977.

Under present legislation the amount of dividends payable by the Company during the year ended October 13, 1978 may not exceed 25% of the reported net earnings for the year ended August 31, 1976.

13. Dividends from Famous Players:

Dividends received from Famous Players Limited for the year ended August 31, 1977 amounted to \$3,624,000 (1976 — \$1,122,000). Dividends in 1977 included final payment under the six year dividend agreement entered into by Canadian Cablesystems Limited and Gulf + Western (Canada) Limited following the 1971 reorganization of the Company. This agreement expired March 13, 1977 and there is no continuing shareholders' agreement as to dividend payments. Further dividend payments will be decided by the Board of Directors of Famous Players Limited.

14. Remuneration of Directors and Officers:

The aggregate direct remuneration paid to the directors and senior officers of the Company for the year ended August 31, 1977 amounted to \$471,000 (1976 — \$467,000).

Consolidated Statements of Earnings

	Years Ended June 30	
	1977	1976
	(\$000)	(\$000)
Revenue:		
Theatre operations	101,719	102,557
Property rental and hotel operations	6,932	6,115
Proceeds from sale of property	6,694	19,272
	115,345	127,944
Cost of sales:		
Theatre operations	46,734	47,301
Hotel operations	1,281	1,222
Cost of property sold	880	9,359
	48,895	57,882
Gross profit	66,450	70,062
Operating expenses	47,333	45,848
Corporate expenses	6,408	5,814
	12,709	18,400
Other operating income—net	1,047	738
Equity in earnings before income taxes of associated companies and joint enterprises	146	969
Operating income	13,902	20,107
Other non-operating income (loss)—net	(79)	83
Interest expense, net of interest income	2,630	1,251
Earnings before income taxes	11,193	18,939
Provision for income tax expense (Note D):		
Current	2,130	4,541
Deferred	1,343	811
On equity earnings	298	517
	3,771	5,869
Net earnings before minority interest	7,422	13,070
Minority interest in net earnings of subsidiaries	101	165
Net earnings	7,321	12,905

Certain 1976 amounts have been reclassified to conform with current classifications.

Consolidated Statements of Retained Earnings

	Years Ended June 30	
	1977	1976
	(\$000)	(\$000)
Retained earnings at beginning of year	21,521	10,913
Net earnings for the year	7,321	12,905
	28,842	23,818
Dividends declared	7,419	2,297
Retained earnings at end of year	21,423	21,521

	Years Ended June 30	
	1977	1976
	(\$000)	(\$000)
Sources of cash:		
Operations—		
Net earnings	7,321	12,905
Add (deduct) non-cash items—		
Depreciation and amortization of fixed assets	4,035	3,368
Deferred income taxes	1,343	811
Minority interest in net earnings of subsidiaries	101	165
Share of net loss (earnings) of associated companies	151	(452)
	12,951	16,797
Dividends received from associated companies net of capital contributions to joint enterprises	155	652
Total cash from operations	13,106	17,449
Increase in debt—		
Bank loan and indebtedness	4,982	1,070
Other	21,400	21,347
Total new debt	26,382	22,417
Book value of property and other fixed assets sold	718	9,564
Instalments on mortgages receivable	82	644
Total sources of cash	40,288	50,074
Uses of cash:		
Expenditures for fixed assets	16,864	27,056
Repayment of long term debt	13,496	15,255
Advances to associated companies—net	1,826	2,094
Payment to minority shareholders	86	174
Payment of dividends	1,795	2,297
Additions to mortgages receivable	3,419	210
Reduction (increase) in net payables to affiliated companies	(2,481)	3,468
Net change in other assets and liabilities	5,878	1,818
Total uses of cash	40,883	52,372
Decrease in cash	595	2,298
Opening cash balance	1,150	3,448
Closing cash balance	555	1,150

Certain 1976 amounts have been reclassified to conform with current classifications.

To the Shareholders,
Famous Players Limited.

We have examined the consolidated balance sheets of Famous Players Limited and its subsidiaries as at June 30, 1977 and June 30, 1976 and the related consolidated statements of earnings, retained earnings and sources and uses of cash for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Famous Players Limited and its subsidiaries at June 30, 1977 and June 30, 1976 and the consolidated results of their operations and consolidated sources and uses of their cash for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.


Ernst & Ernst
Chartered Accountants

September 1, 1977.

Notes to Consolidated Financial Statements

June 30, 1977 and 1976

Note A Significant accounting policies:

(i) Principles of consolidation—
The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries.

Investments in associated companies and unincorporated joint enterprises (20% to 50% owned) are recorded on the equity basis of accounting. The equity in earnings before income taxes of these entities is included in operating income and related income taxes of these companies included in the provision for income taxes.

(ii) Fixed assets—

Fixed assets are primarily carried at cost. For buildings that the Company constructs and operates, costs include interest, property taxes, legal fees and other related carrying charges during the construction period. In the case of real estate rental buildings, cost will also include operating costs and revenues during the initial leasing periods. Betterments and renewals are capitalized, unless they do not add to, or restore, the useful life of the property. Expenditures for maintenance and repairs are expensed as incurred.

(iii) Depreciation and amortization of fixed assets—

Depreciation on buildings is recorded primarily on a straight-line basis over the estimated useful lives of the buildings. Real estate rental buildings are depreciated on a 5% sinking fund method based on estimated useful lives of 40 to 50 years.

Depreciation on equipment is recorded primarily on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized in equal installments over the terms of the leases.

Depreciation of property and equipment amounted to \$4,035,000 for the year, and \$3,368,000 in 1976.

(iv) Income taxes—

Provision for income taxes includes deferred taxes, which represent future tax

effects of items reported for income tax purposes in periods different from when reported in the financial statements.

Note B Investment in associated companies and joint enterprises:

	Thousands of Dollars	
	1977	1976
Shares, at cost	1,590	1,591
Capital contributions to joint enterprises	34	238
Equity in undistributed earnings since acquisition	1,951	2,054
Advances to associated companies	4,604	4,434
Advances from associated companies	(30)	(1,686)
	8,149	6,631

Note C Mortgages receivable:

	Thousands of Dollars	
	1977	1976
First mortgages, receivable in instalments from 1977 to 1986, with interest rates from 6% to 12%	3,987	1,849
Less allowance for doubtful accounts	—	1,200
	3,987	649
Less current portion	926	76
	3,061	573

The above principal matures as follows:

	Thousands of Dollars	
Year ending June 30, 1979	1,166	
Year ending June 30, 1980	991	
Year ending June 30, 1981	799	
Year ending June 30, 1982	27	
Beyond five years	78	
	3,061	

Note D Income taxes:

Losses of certain subsidiaries for income tax purposes in the amount of approximately \$462,000 are available up to 1982 to reduce

future income taxes which may otherwise be payable. This potential recovery has not been recorded in these financial statements.

Note E Long term debt:

	Thousands of Dollars	
	1977	1976
Mortgages payable in instalments 1977 to 2002; secured by land and buildings, with interest rates from 8% to 11%	17,110	9,039
Revolving bank loan, payable in instalments 1979 to 1983; unsecured, with interest rates varying with commercial paper rates, 8.73% as at June 30, 1977	12,000	9,000
Bank loans payable in instalments 1977 to 1983; unsecured, with interest rates from 8 1/2% to 11 1/2%	4,876	4,308
Interim bank financing on real estate development project; interest rate of 1 1/4% above prime	10,000	12,600
Other notes payable; unsecured, with interest rates from nil to 4%	453	518
	44,439	35,465
Less current portion	1,410	887
	43,029	34,578

The above principal matures as follows:

	Thousands of Dollars	
Year ending June 30, 1979	427	
Year ending June 30, 1980	3,797	
Year ending June 30, 1981	4,241	
Year ending June 30, 1982	4,574	
Beyond five years	29,990	
	43,029	

Interest on long term debt amounted to \$3,995,000 for the year ended June 30, 1977 of which \$1,091,000 was capitalized in construction in progress (1976—\$2,693,000 and \$1,186,000 respectively).

Note F Commitments and contingent liabilities:

At June 30, 1977 the Company has commitments under leases for theatre and other premises, and equipment, extending for periods up to the year 2060 (excluding renewal option terms). Certain leases also require the lessee to pay property taxes and expenses related to the property. Certain leases provide for additional payments based upon a percentage of revenues of the theatres. Aggregate minimum rental obligations under leases amount to \$65,507,000. Minimum annual

rental payments required in each of the following five years ending June 30, are:

1978	\$4,162,000
1979	\$3,949,000
1980	\$3,778,000
1981	\$3,476,000
1982	\$3,250,000

Rental expense for the year ended June 30, 1977 amounted to \$5,062,000 (1976—\$4,773,000).

At June 30, 1977, the Company has outstanding commitments amounting to \$986,000 in connection with capital expenditures.

At June 30, 1977, the Company and one of its subsidiaries have guaranteed the obligations of certain associated companies:

Famous Players Limited	\$ 745,000
Films Paramount S.A.	4,798,000
	\$5,543,000

The unfunded liability for past service obligations of the Company's pension plan has been estimated by independent actuaries at approximately \$3,250,000 at June 30, 1977. This liability is being funded through 1988, with corresponding charges to earnings.

Note G Remuneration of directors and officers:

	Thousands of Dollars	
	1977	1976
Remuneration:	5	7
Remuneration of directors as directors	558	572

Other information:

Number of directors	12	10
Number of officers	16	15
Number of officers who are also directors	3	3

The directors and officers receive no remuneration from the Company's subsidiaries.

Note H Anti-Inflation Act:

The Company is subject to the Anti-Inflation Act and Regulations and consequently its ability to increase prices, profit margins and compensation is restricted. Applying the formula used in 1976 to evaluate compliance for the year ending June 30, 1977, the Company

experienced apparent excess revenue of approximately \$500,000 relating to its confection business. The Company will file a compliance plan to eliminate this excess revenue which management believes will be acceptable to the Anti-Inflation Board.

Note I Subsequent Event:

The Company has sold its 50% interest in Theatre Holding Corporation Ltd., an associated company, for a consideration of

\$3,700,000 and will realize a profit on this transaction of approximately \$3,500,000 before income taxes.

Quarterly Information

REVENUES AND EARNINGS									
	First Quarter Ended November 30		Second Quarter Ended February 28		Third Quarter Ended May 31		Fourth Quarter Ended August 31		
(\$000 Except Per Share Amounts)	1975	1976	1976	1977	1976	1977	1976	1977	
Revenues—cable operations	5,472	6,170	5,589	6,328	5,832	6,655	5,983	7,167	
Net profit—cable operations and investment income	831	986	875	992	725	973	680	1,205	
Equity in the earning of Famous Players Limited									
—theatres and rental properties	837	468	440	73	650	404	373	(92)	
—gain on sale of real estate	7	102	1,775	275	1,404	278	818	2,068	
Total Net Profit	1,675	1,556	3,090	1,340	2,779	1,655	1,871	3,181	
Earnings per share									
—cable and investments	21¢	25¢	22¢	25¢	18¢	24¢	17¢	30¢	
—theatres and rental properties	21¢	12¢	11¢	2¢	16¢	10¢	9¢	(2¢)	
—gain on sale of real estate	—	2¢	45¢	7¢	35¢	7¢	21¢	52¢	
Total	42¢	39¢	78¢	34¢	69¢	41¢	47¢	80¢	



Subscriber Growth 1971-1977

	As at August 31		1971	1972	1973	1974	1975	1976	1977
	Households passed by cable	Subscribers							
Cornwall Cablevision	Households passed by cable	12,500	12,500	13,300	14,489	14,537	15,600	16,659	16,659
	Subscribers	9,619	10,680	11,776	12,549	13,119	13,807	14,750	14,750
	% Penetration	77.0	85.4	88.5	86.0	90.2	88.5	88.5	88.5
Grand River Cable TV	Households passed by cable	85,478	91,970	97,334	101,288	106,932	103,401	107,020	107,020
	Subscribers	51,948	61,239	70,041	77,576	82,113	85,253	80,869	80,869
	% Penetration	60.8	66.6	72.0	76.6	76.8	82.4	75.6	75.6
Hamilton Co-Axial	Households passed by cable	40,275	40,405	40,638	41,000	41,000	41,667	42,607	42,607
	Subscribers	20,839	25,111	29,624	32,755	33,696	34,564	35,336	35,336
	% Penetration	51.9	62.1	72.9	79.9	82.2	83.0	82.9	82.9
Jarmain Cable TV—Brantford	Households passed by cable	21,416	22,872	23,790	24,569	25,469	25,969	26,707	26,707
	Subscribers	13,451	15,270	16,680	18,610	19,798	20,487	21,657	21,657
	% Penetration	62.8	66.8	70.1	75.7	77.7	78.9	81.1	81.1
Jarmain Cable TV—Newmarket	Households passed by cable	6,008	6,671	6,937	7,906	8,768	9,405	9,813	9,813
	Subscribers	4,581	5,430	6,072	7,038	7,737	8,463	9,114	9,114
	% Penetration	75.3	81.4	87.5	89.0	88.2	90.0	92.9	92.9
London Cable TV	Households passed by cable	50,700	52,615	56,520	58,902	59,828	63,008	64,314	64,314
	Subscribers	41,856	45,208	50,026	52,552	54,396	56,482	58,085	58,085
	% Penetration	82.6	85.9	88.5	89.2	90.9	89.6	90.3	90.3
Metro Cable TV	Households passed by cable	139,000	141,050	143,934	150,751	152,264	156,909	156,909	156,909
	Subscribers	47,544	61,078	76,744	107,596	112,777	116,385	117,607	117,607
	% Penetration	34.2	43.3	53.1	71.4	74.1	74.2	75.0	75.0
Pine Ridge Cable TV	Households passed by cable	26,180	28,161	35,541	38,135	41,703	44,510	44,834	44,834
	Subscribers	12,319	13,739	18,474	22,703	24,674	26,223	28,626	28,626
	% Penetration	47.1	48.8	52.0	59.5	59.2	58.9	63.8	63.8
Kingston Cable TV Limited (50% owned)	Households passed by cable	—	—	—	13,000	24,300	28,100	29,918	29,918
	Subscribers	—	—	—	2,737	9,961	14,887	16,902	16,902
	% Penetration	—	—	—	21.1	41.0	53.0	56.5	56.5
Chatham Cable TV Limited (50% owned)	Households passed by cable	10,500	11,016	11,756	12,668	13,238	13,593	14,188	14,188
	Subscribers	4,962	6,065	7,319	8,581	9,287	9,625	10,007	10,007
	% Penetration	33.1	55.1	62.3	67.7	70.2	70.8	70.5	70.5
Community Antenna Television Ltd. (acquired July 29, 1977)	Households passed by cable	—	54,774	55,967	71,525	74,113	75,783	80,478	80,478
	Subscribers	—	11,989	22,505	33,616	41,116	44,738	48,663	48,663
	% Penetration	—	21.9	40.2	47.0	55.5	59.0	60.5	60.5
Total All Systems	Households passed by cable	392,057	462,034	485,717	534,233	562,152	577,945	593,447	593,447
	Subscribers	207,119	255,809	309,261	376,313	408,674	430,914	441,616	441,616
	% Penetration	52.8	55.4	63.7	70.4	72.7	74.6	74.4	74.4
Canadian Cablesystems' Equity In Total	Households passed by cable	318,120	335,591	350,180	449,874	469,270	481,316	571,394	571,394
	Subscribers	158,059	194,418	229,691	337,038	357,934	373,920	428,162	428,162
	% Penetration	49.7	57.9	65.6	74.9	76.3	77.7	74.9	74.9

Directors, Corporate and Cable Division Management

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Toronto, Ontario
Donald L. Angus, P.Eng.
President
H. H. Angus & Associates Limited
Toronto, Ontario

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B.C. Hydro and Power Authority
Vancouver, British Columbia

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Calgary, Alberta

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Partner
Desjardins, Ducharme, Desjardins,
Bourque & Pratte
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Chairman and Chief Executive Officer

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Vice-President, Finance

Albert Gnat
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Vice-President, Personnel
and Organization Development



Corporate Structure and System Management

